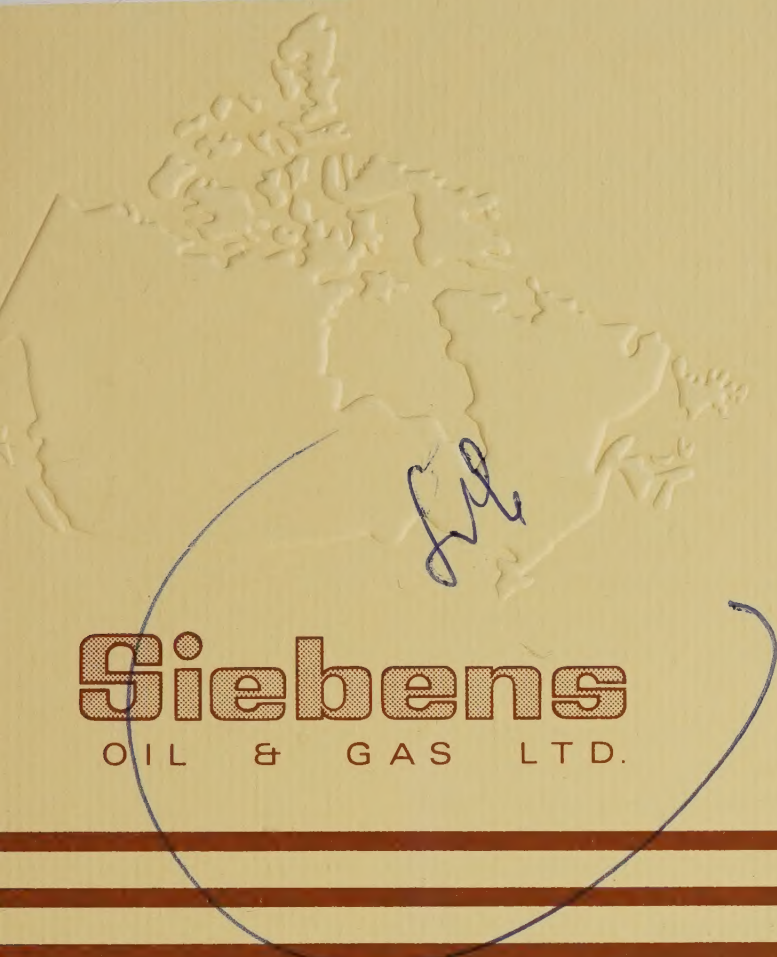


AR21



Siebens
OIL & GAS LTD.

ANNUAL REPORT 1971



DIRECTORS

A. J. E. Child, Calgary, Alberta
President of Burns Foods Limited

J. H. Coleman, Toronto, Ontario
Deputy Chairman & Executive Vice-President
of The Royal Bank of Canada

F. N. Hughes, Winnipeg, Manitoba
Deputy Managing Partner of
Richardson Securities of Canada

W. W. Siebens, Calgary, Alberta
President of Siebens Oil & Gas Ltd.,
Siebens Oil & Gas (Malta) Limited,
Siebens Oil & Minerals Inc.
Siebens Oil & Gas (UK) Limited

OFFICERS

W. W. Siebens, President
D. E. McPhee, Secretary-Treasurer

HEAD OFFICE

300 Three Calgary Place, Calgary, Alberta

SUBSIDIARIES

Siebens Oil & Gas (Malta) Limited
Siebens Oil & Minerals Inc.
Siebens Oil & Gas (UK) Limited

BANKERS

The Royal Bank of Canada, Calgary, Alberta
Hambros Bank Limited, London, England

AUDITORS

Riddell, Stead & Co., Chartered
Accountants, Calgary, Alberta

SOLICITORS

MacLeod Dixon, Calgary, Alberta

REGISTRARS AND TRANSFER AGENTS

Montreal Trust Company,
Calgary, Vancouver, Regina, Winnipeg,
Toronto, Montreal

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Canadian Stock Exchange

ANNUAL MEETING OF SHAREHOLDERS:

The Annual Meeting of Shareholders will be held on November 29th, 1971 at 10:00 A.M. in the Company's Boardroom, 300 The Calgary Place. A formal Notice of this meeting, information circular and form of proxy are being mailed with this report.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Company experienced an excellent year and new highs were recorded in revenues, production and reserves. Total revenues for the year ended August 31, 1971 increased to \$1,534,296. Net earnings declined to \$74,961 from \$328,086 reported for the prior eight month period from date of amalgamation on January 7, 1970 to August 31, 1970. This decrease in earnings was primarily due to greater exploration and dry hole costs and higher carrying charges for non-producing properties. As at August 31, 1971, the Company continued to be in a strong financial condition with approximately \$9,000,000 in cash and marketable securities.

An increase in exploratory activities on Company lands is forecast for the next fiscal year. In addition to the 20 to 25 wells in which the Company expects to participate, over 20 wells will be drilled at no cost to the Company on lands farmed out to other exploration companies. The Company will continue the policy of having high risk, high cost exploratory prospects evaluated by farming out these lands to others.

Important oil and gas discoveries in Canada's frontier areas this past year are causing an acceleration in exploration in these areas. Announcements of large discoveries of gas reserves by Panarctic Oils Ltd. at its King Christian well and by Imperial Oil Ltd. of their oil and gas wells in the Mackenzie Delta indicate that the petroleum industry will be directing more of its attention to these areas in the future. Of particular significance is the Mobil Oil Canada, Ltd. discovery on Sable Island off the East Coast of Canada where the first commercial indications of hydrocarbons in this region appear to justify the millions of exploration dollars spent to date by the major oil companies in this area. Siebens' land holdings now exceed 70 million gross acres and 40 million net acres, the great majority of which is situated in these frontier areas. The Company has entered into farmout arrangements whereby approximately 37 million gross acres in these highly prospective areas will be explored at no cost to the Company. The very large commitments for exploration expenditures on

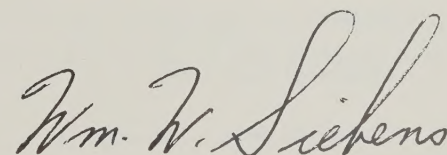
the farmout lands gives the Company good exposure to future discoveries which may be made in frontier regions.

The Company, through its ownership of 40% of Siebens Oil & Gas (UK) Limited, made application for Production Licences with the United Kingdom Government in August, 1971. In addition to the North Sea, other areas in proximity to the United Kingdom appear promising for the discovery of hydrocarbons close to a large and growing market. An active geophysical program was conducted prior to the making of application. Announcement of awards by United Kingdom Government is expected before the end of 1971.

Siebens Oil & Gas Ltd. foresees increased activity in all phases of its operations. The Company's extensive land holdings in the prime exploration areas of Canada and sound financial position make the prospects for the ensuing year appear bright.

The Company's ability to achieve its full potential depends to a large extent on its employees. I am happy to report that our staff is now complete and we have young, aggressive people in our exploration, production, land and accounting departments. The loyalty and co-operation of these individuals and their efforts on behalf of the Company ensures continued progress.

On behalf of the Board,



W. W. Siebens
President

October 15, 1971

CANADIAN LAND HOLDINGS

The total acreage held by the Company at August 31, 1971 has increased from that held at the end of the last fiscal year due to newly acquired East Coast offshore permits. Holdings of Petroleum and Natural Gas Reservations, Permits and Leases in the Western Provinces have altered slightly during the normal course of operation. A 2.9 million acre block offshore northern Baffin Island was surrendered back to the Federal Government but this was more than offset by the increase in East Coast offshore permits. Our continued policy of developing reserves and production by negotiating farmout arrangements, whereby other exploration companies in the industry conduct exploratory work on our acreage at no cost to the Company, has shown outstanding success as indicated by the figures in the chart below and the more significant farmouts detailed in this report.

The "Gross Acres Farmed Out" figures below indicate the amount of acreage committed to other com-

panies in return for work obligations and also include acreage already earned by others and presently held on a joint interest basis. These farmouts are extremely significant to the Company in that they represent work and money commitments in frontier areas giving continued exposure in these regions to your Company.

The policy of developing reserves and production in high risk expensive frontier areas by farming out lands while maintaining sizable working interests at little risk and cost will be continued. Exploration efforts will be concentrated in Western Canada for the time being.

As at August 31, 1971 the Company held approximately 41,900,000 net acres, which amounts to 57.6% of the 72,700,000 gross acres held in Canada. Page 12 gives the land summary for acreage held in Foreign Areas.

The royalty interest of the Company remains virtually the same.

CANADIAN LAND HOLDINGS WORKING INTEREST PROPERTIES

GEOGRAPHICAL AREA	NATURE OF INTEREST	GROSS ACRES	NET ACRES	GROSS ACRES FARMED OUT
Alberta	Reservations	1,400,764	1,151,025	638,720
	Permits			
	Leases	406,781	314,000	130,000
Saskatchewan	Permits	768,320	643,245	334,880
	Leases	22,963	4,664	
British Columbia	Permits	25,104	25,104	—
	Leases	5,534	246	
Ontario	Licence	1,862,000	465,500	
Northwest Territories	Permits	230,371	115,191	
Mackenzie Delta — Beaufort Sea	Permits	2,630,626	1,315,313	2,079,899
*Arctic Islands	Permits	19,445,094	9,722,547	19,445,094
Hudson Bay	Permits	5,647,201	1,355,695	—
**Eastern Canada — Offshore	Permits	40,253,372	26,771,421	14,982,480
		<u>72,698,130</u>	<u>41,883,959</u>	<u>37,611,073</u>

* In 1972, the Companies working interest in 19,445,094 gross acres will be reduced to 25%, thereby reducing the net acres in the Arctic Islands to 4,861,273 acres.

** Gross and Net figures include 19,903,773 acres gross, 13,557,940 acres net filed on and pending issuance of Permits from Federal Government.

CANADIAN OIL AND GAS EXPLORATION

Western Canada

During the 12 month period ending August 31, 1971, Siebens' drilling activities have been concentrated in the Province of Alberta. The Company drilled or participated in the drilling of 22 wells resulting in the completion of 10 gas wells and five oil wells. Nine wells were drilled at no cost to the Company on farmouts of Company land holdings and resulted in one gas discovery in southwest Saskatchewan. A total of 25 wells were drilled on lands in which the Company holds overriding royalties and of these, nine gas wells were found capable of production.

In the Medicine Hat area, eight gas wells were completed in the Milk River and Medicine Hat sands. The Company's average ownership in these wells was 31¼%. Production of gas has commenced from this area. Three successful wells, in which the Company holds a 25% interest, were drilled in the Verger—Matzhiwin area and resulted in one gas well and two oil wells. Development drilling in this field appears to have defined a small Basal Quartz oil pool. Gas reserves here will go on stream November 1, 1971.

In the Sunset Triassic oilfield, located between Sturgeon Lake South and Snipe Lake fields, Alberta, the Company holds a 30% interest in a recently drilled development well. Evaluation of this oilwell is not complete but preliminary results indicate higher than average productivity from the sandstone reservoir. Further development drilling is planned for this area.

The Company also participated in the drilling of a Triassic oil discovery in the Pouce Coupe area, Alberta, approximately 25 miles east of Dawson Creek, B.C. The well, owned 30% by the Company, encountered 18 feet of water free oil pay in the Triassic Boundary Lake zone. A step-out well has been commenced on option acreage in order to define the edge of the oil pool which could extend to the southeast.

In addition to the 20 wells to be drilled at no cost to the Company and discussed in the following section,

Siebens will be participating in the drilling of approximately 20 exploratory and development wells. A program of development drilling in the Medicine Hat area will tie in proven reserves to the pipeline while stepout and infill drilling will be continued in the Pouce Coupe and Sunset areas. A series of exploratory tests in various areas of Alberta and Saskatchewan will be conducted in search of shallow to medium depth gas and oil accumulations.

FARMOUT HIGHLIGHTS

Siebens has, at the time of writing this report, entered into negotiations with various companies which have resulted in a total of 20 wells committed to be drilled during the ensuing fiscal year on Siebens land and a further 18 wells to be drilled at the other companies option, all at no cost to the Company.

The most significant farmout to the Company is a ten well program to be drilled where the Company has 170,000 acres favorably located in northeast Alberta where new and promising gas reserves have been found and are presently being developed. Gas fields in the immediate area include Marten Hills, Calling Lake, Tweedie and Craigend which produce from various formations. Under the agreement, the drilling party will earn a 50% working interest in 85,800 acres for drilling the 10 well program and may earn an additional amount of acreage for each well drilled after the original 10 wells. In order for the drilling party to earn a 50% interest in the entire 170,000 acres, they would have to drill a total of 22 wells, at no cost to the Company.

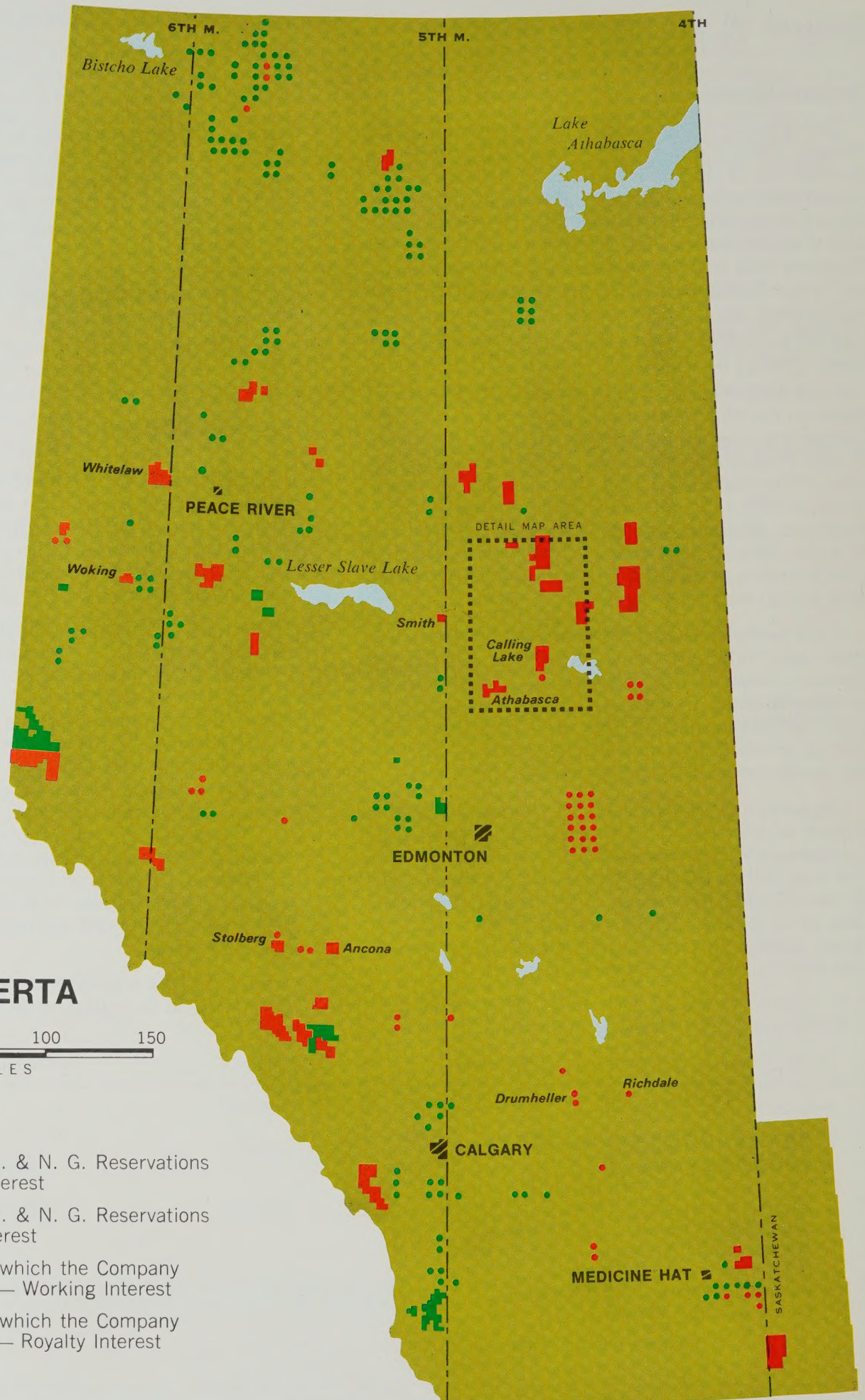
Page 5 gives a brief resume of some of the work committed to Company lands as of the date of this report.

ROYALTY INTEREST PROPERTIES

GEOGRAPHICAL AREA

GROSS ROYALTY ACREAGE

Alberta	787,340
Saskatchewan	865,186
British Columbia	823,531
Hudson Bay	8,923,621
Northwest Territories & Arctic Islands	30,656,862
Eastern Canada — Offshore	4,369,404
Total Royalty Interest Acreage	<u>46,425,944</u>

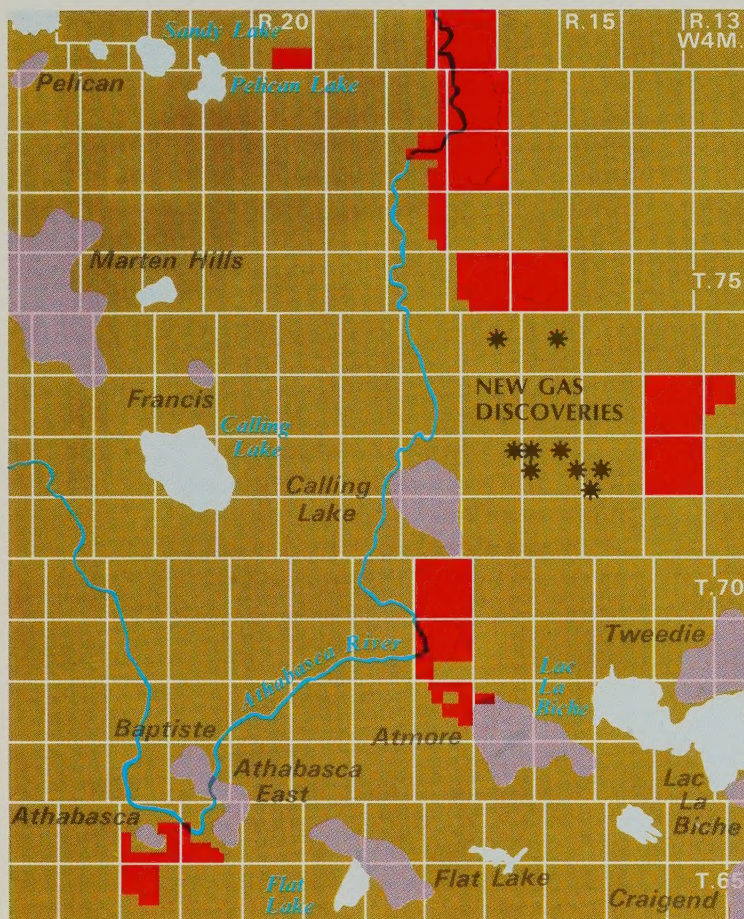


ALBERTA DETAIL MAP



Working Interest Acreage Gas Discoveries

Gas Fields



Smith Area

A 2,300 foot Wabamun test has been committed on 7,680 acres owned by the Company in northeast Alberta (Twp 72, Rge 1, W5M) whereby the drilling party earns a 50% working interest.

Athabasca Area

An exploration company has committed to drill a 2,200 foot Wabamun test on 22,720 acres owned by Siebens in northeast Alberta (Twp 66, Rge 23, W4M) to earn a 50% working interest in 11,360 acres and an option to earn a 50% interest in the remaining acreage.

Richdale Area

A 3,700 foot Mississippian test has been committed on 3,040 acres owned by the Company in southeast Alberta (Twp 29, Rge 12, W4M) whereby the drilling party earns a 50% working interest in the block.

Ancona Area

Amerada Hess Corporation has committed to drill an 8,200 foot Cardium test in Section 19-42-11 W5M on a 16,000 acre P & NG Reservation owned by the Company to earn a 50% working interest in one-half the lands with an option to earn a 50% in the remaining one-half by drilling another well thereon. This land lies approximately six miles east of the Rocky Mountain Disturbed Belt between the Brazeau River and Strachan-Ricinus gas fields and just west of the Ferrier and Rocky Mountain House oil fields.

Whitelaw Area

A company has committed to drill a minimum 6,000 foot Banff test on one of two P & NG Reservations totalling 71,680 acres owned by Siebens in northwest Alberta (Twp 84, Rge 2, W6M) to earn a 50% working interest to the depth reached in the Reservation drilled with two options to earn a 50% interest in one-half of the remaining Reservation with each well drilled.

Woking Area

Anderson Exploration Ltd. has committed to drill a minimum 8,000 foot Shunda test on 10,880 acres owned by the Company in northwest Alberta (Twp 75, Range 4, W6M) to earn a 50% working interest to the depth drilled.

Calling Lake Area

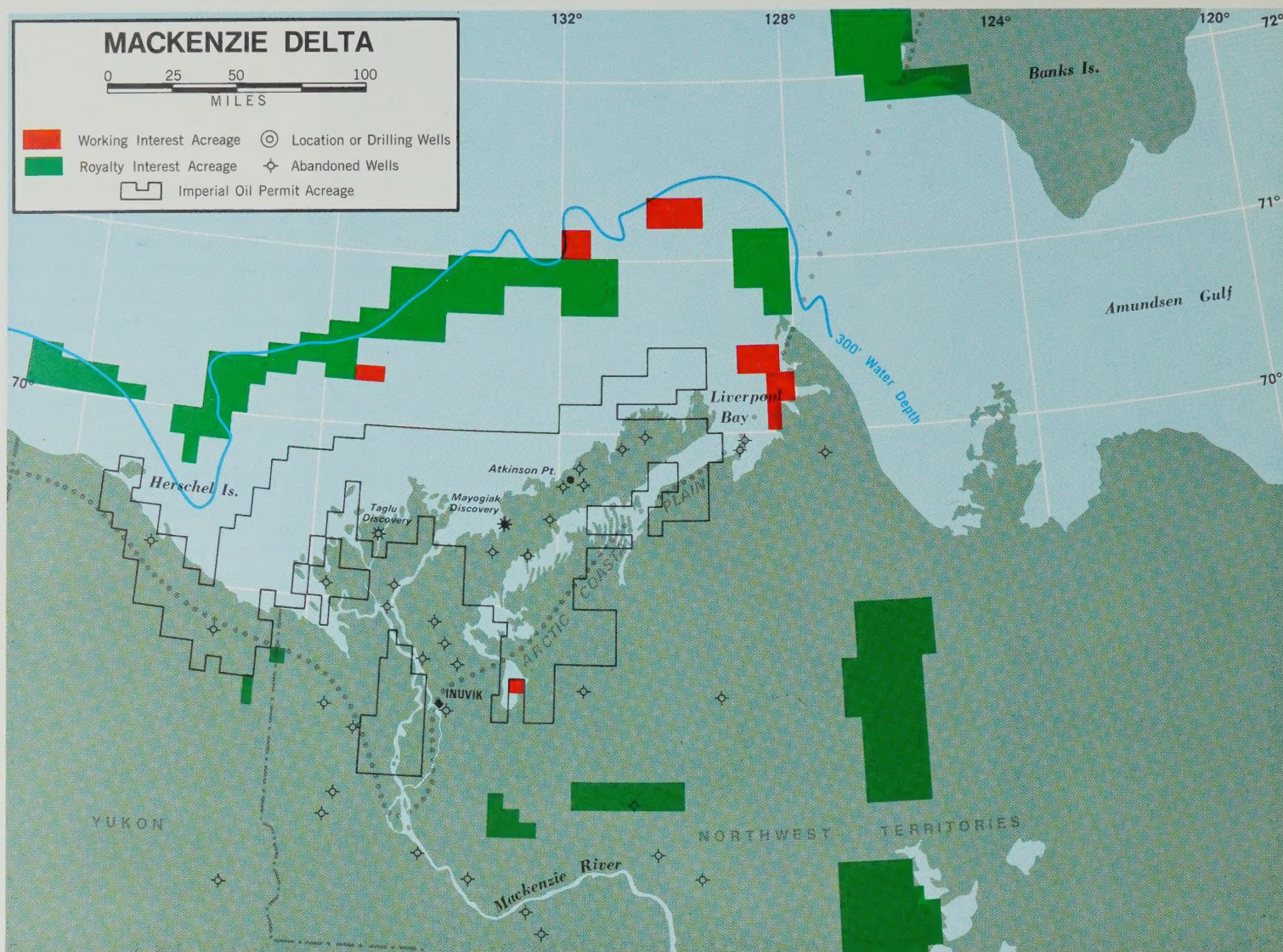
Dome Petroleum Limited has committed to drill a 1,600 foot Nisku Test on a 38,400 acre block in north-east Alberta (Twp 70, Rge 18, W4M) owned 20% by the Company to earn a 50% working interest in the block.

Drumheller Area

Canadian Export Gas & Oil have reimbursed the Company \$42,000 in lease rentals, and have committed to drill one well on 21,120 lease acres owned by the Company in southeast Alberta to earn a portion of the lands. Options to drill two additional wells will earn them a 50% interest in the lands.

Stolberg Area

Skelly Oil of Canada has an option on 17,920 acres of Reservation land owned by the Company in west central Alberta to earn a 50% interest in the lands by drilling an 18,000 foot D-3 test.



MACKENZIE DELTA

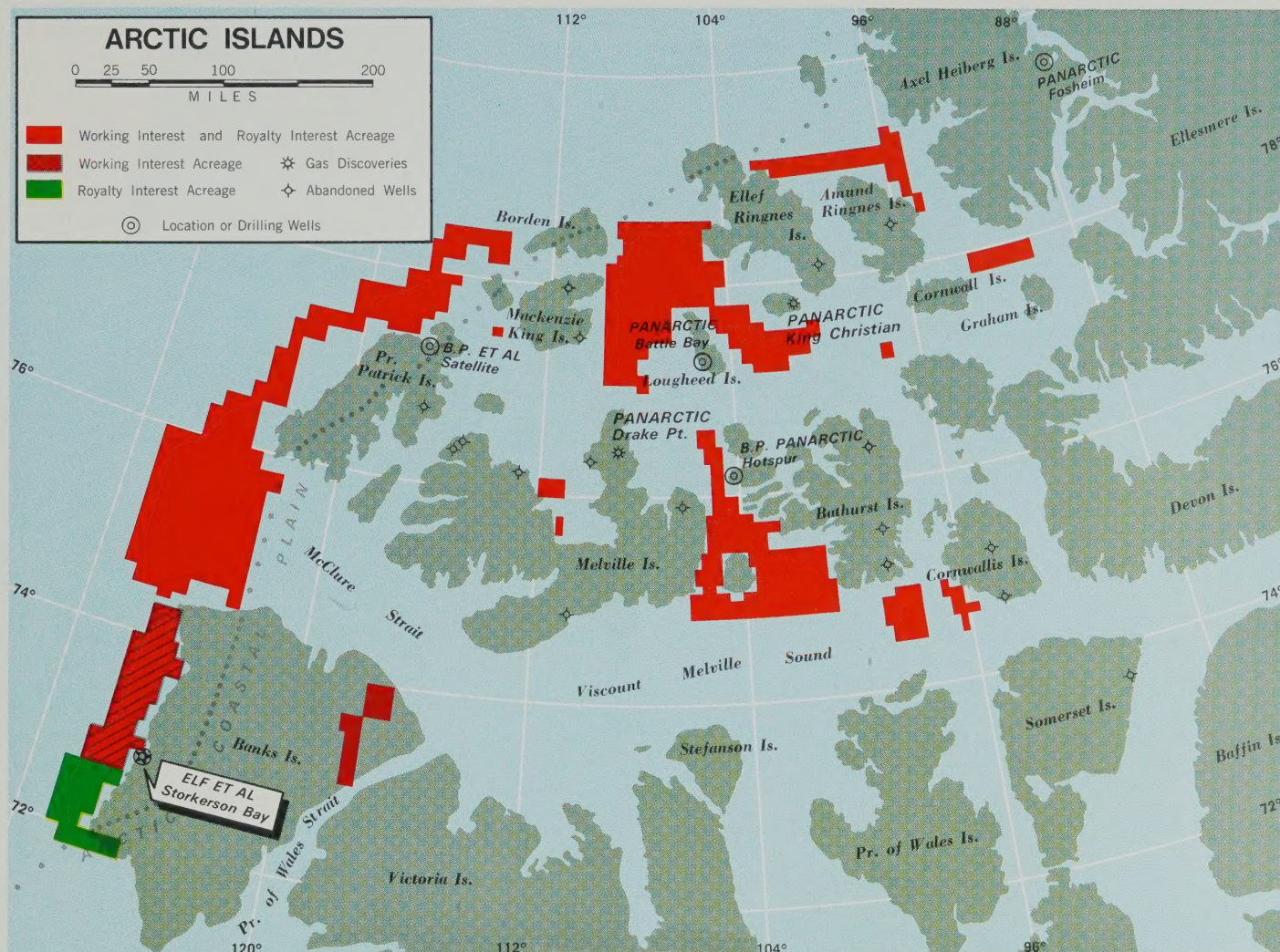
Two important discoveries reported by Imperial Oil Limited this past summer have focused the attention of the petroleum industry on the Mackenzie Delta region of the Northwest Territories. The Imperial Mayo-giak P-17 well is currently suspended after having tested oil and gas from the 3,800 foot level and light gravity oil from the 9,400 foot level. Imperial Taglu G-33 recovered natural gas and condensate during drillstem tests at the 8,100 foot level. Imperial has announced plans to move two rigs capable of drilling to 19,000 feet into the Mackenzie Delta making a total of five rigs available for their use this coming winter. They also have indicated eleven wells will be drilled in the Mackenzie Delta this winter at an approximate cost of \$17 million. Four other drilling rigs have been moved into this area in preparation for an active winter drilling season.

The Company holds a 50% interest in Exploratory Permits covering a total of 259,358 acres in the Liverpool Bay area approximately 100 miles northeast of the Mayo-giak discovery and in the same geological

environment. A large positive anomaly with 400 feet of closure over an area of 20,000 acres was revealed by a marine seismic survey. Several firm proposals from companies interested in drilling this feature, located in shallow water, have been declined due to the interest generated by the Imperial discoveries. Further shallow water marine seismic was conducted this past summer in this area as well as in the Beaufort Sea area where the Company holds a 50% interest in 291,369 gross acres.

ARCTIC ISLANDS

As anticipated, drilling activity and seismic survey work increased in the Arctic Islands during the past year. The Panarctic King Christian D-18 well, which blew out and caught fire in October, 1970, was finally brought under control in January, 1971. A stepout well from the discovery subsequently measured a sustained flow of 165 million cubic feet per day of natural gas

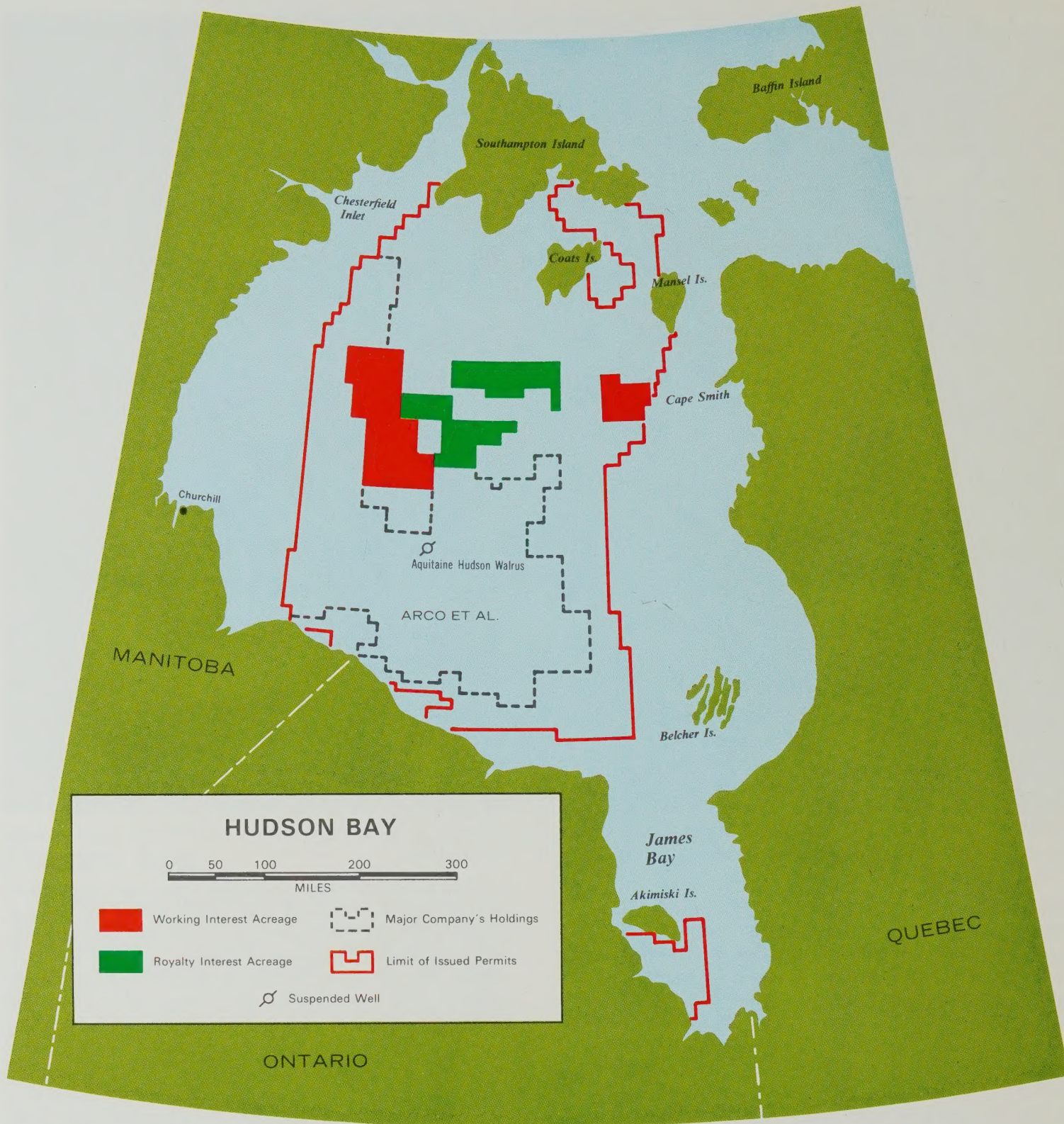


from the Heiberg sand at a depth of about 2,200 feet. Panarctic has indicated that gas reserves found are of major proportion.

A number of major oil companies, some without land holdings in the Arctic Islands, have announced plans to acquire interests by participating in future drilling with Panarctic Oils Ltd. Four major U.S. gas transmission companies will support Panarctic's exploration program for several years in order to obtain a first right on any gas discovered during the period. An increase in the tempo of exploration is indicated for the next several years in the Arctic with the possibility of the discovery of very large hydrocarbon reserves. The Company has a 50% working interest in 19,445,094 gross acres spread throughout the Islands which will obtain good exposure from future exploration activity at no cost to the Company. Imperial Oil Ltd. has announced its intention to spend \$11 million on exploration and drilling between this fall and the end of 1972 under a recently reported exploration agreement with Panarctic Oils Ltd. It is estimated that some \$175,000,000 will be spent on Panarctic's lands alone during the next five years. Panarctic and its gas transmission company partners have indicated they feel Arctic Island gas reserves could be brought to

market in five to seven years if sufficient reserves were discovered.

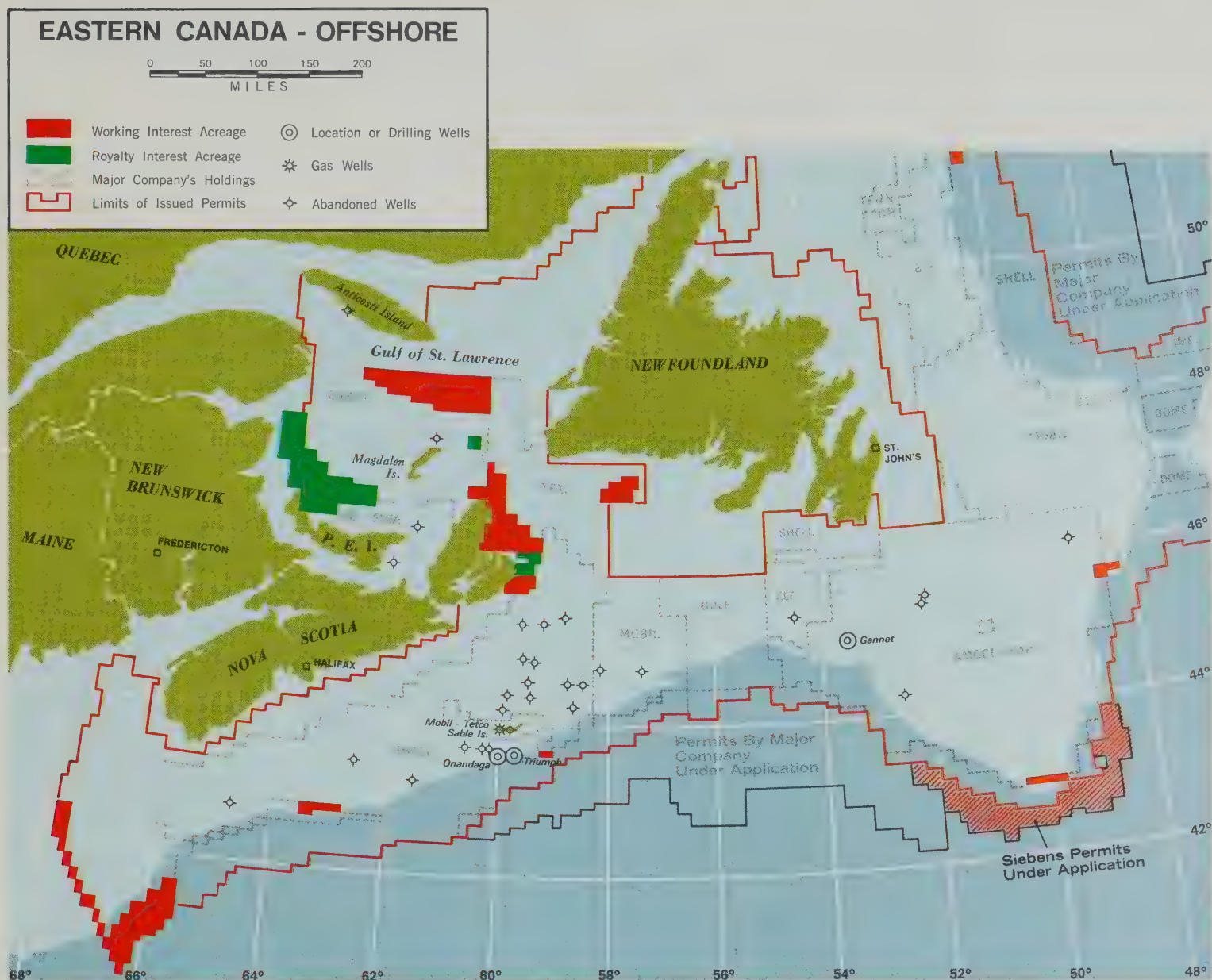
Your Company has concluded a farmout agreement with a group of French controlled petroleum companies, namely Elf Oil Exploration and Production Canada Ltd., Aquitaine Company of Canada Ltd. and Leonard Refineries, Inc. (a subsidiary of Total Petroleum (North America) Ltd.) wherein the group may earn an interest in Siebens' 50% interest in 2,079,899 gross acres lying off the west coast of Banks Island. The three companies will drill a 7,000 foot onshore test commencing in October, 1971 on a permit immediately offsetting this acreage block. In addition, the Elf group have been given options to drill another onshore well and two offshore wells to earn their maximum interest in the block. The well, Elf et al Storkerson Bay A-15, will be the first well to be drilled on Banks Island, and is situated on what is considered an extension of the geological conditions present in the Mackenzie Delta where Imperial Oil Limited has announced oil and gas discoveries. The Company regards the drilling of this well adjacent to a large block of Company-held acreage to be of great importance and which, if successful, could have a significant bearing on the future of the Company.



HUDSON BAY

The Company's holdings in Hudson Bay consist of a 50% interest in 1,130,567 gross acres situated southwest of Mansel Island and a 17½% interest in 4,516,634 gross acres located 200 miles northeast of the Port of Churchill. Marine seismic refraction surveys were completed this past summer on these exploration permits with the program on the larger block being conducted at no cost to the Company by its partners, Canada-Cities Service Ltd., Mobil Oil Canada, Ltd. and Hamilton Brothers Canadian Gas Company Ltd.

The Aquitaine—ARCO group, holders of over 45 million acres in Hudson Bay, have let a contract for the construction of a semisubmersible offshore drilling rig to be used to explore their acreage. This rig should commence drilling operations in the summer of 1973. Twenty million dollars have been budgeted for this drilling program which will take several years to complete. It is felt several wells will be drilled in proximity to Company acreage.



EAST COAST

Four offshore drilling rigs are currently working off the East Coast of Canada. Shell Canada Limited are evaluating their immense acreage holdings with two rigs while the Amoco-Imperial group are using one rig on their Grand Banks of Newfoundland acreage. Tenneco operates the last rig on their large permit holdings off the Coast of Labrador. Another semisubmersible rig is currently under construction in Halifax and will work for Mobil Oil Canada, Ltd. in late 1972. Amoco-Imperial will bring in another rig from the North Sea next spring and have announced that thirteen wells will be drilled this coming year at a cost of about \$18 million. It can be seen that acceleration in drilling activities is in store for exploration permits held off of Eastern Canada. The Company, with its large hold-

ings of exploratory acreage in this region (in excess of 40 million acres) can expect to benefit from any discoveries which may be made here.

Mobil Oil Canada, Ltd. recently released details concerning their discovery well Mobil Tetco Sable Island E-48, located about 175 miles east of Halifax, Nova Scotia on Sable Island. Eighteen different zones were tested in the well of which seventeen flowed hydrocarbons. Twelve of these zones flowed both natural gas and condensate and four zones flowed both crude oil and natural gas. One zone flowed natural gas only. Several other untested zones also appear to be productive. The reported flow rates indicate that sizeable reserves of gas, condensate and crude oil are present. This discovery is considered of particular significance

in light of the current energy crisis and the probability that large reserves of natural gas found on the Nova Scotia shelf will be transported by pipeline to the nearby energy deficient industrial areas of Eastern Canada and Northeastern United States. Your Company's holdings in the Gulf of Maine are located in an attractive area crossing the shallow George's Bank feature. A basement ridge is known to be present under these lands which offers some important regional trapping situations.

During the past year, the petroleum industry has been acquiring exploratory permits in deeper waters (up to 10,000 feet) off the East Coast of Canada. This trend to holdings in deeper water is due in part to two factors: the recognition of a thick sequence of sediments seaward from the edge of the continental shelf, and, secondly, recent advances in drilling technology. Among the companies active in filing on this type of acreage are Shell Canada Limited with applications for 21.5 million acres in Baffin Bay; Imperial Oil Limited with applications for 24 million acres northeast and south of Newfoundland as well as large permit holdings off the Labrador coast; Hudson's Bay Oil and Gas Company Limited in the Davis Strait region east of Baffin Island; and Texaco Exploration Canada Ltd. off the south end of the Grand Banks.

In line with this activity, your Company made application for 13 permits totalling 866,272 gross acres lying adjacent to other Company lands held in the George's Bank area off the Gulf of Maine. As well, application has been made for 53 exploratory permits located off the south end of the Grand Banks of Newfound. The permits applied for cover an area of 4,068,624 gross acres and lie south of the Imperial-Amoco holdings and adjacent to recent applications by Texaco Exploration Canada Ltd. Geological considerations lead the Company to believe highly prospective sedimentary sections are present in these areas which warrant further investigation.

North of the Labrador farmout to Hudson's Bay Oil & Gas Company Ltd., discussed below, the Company has made application for 238 exploratory permits containing 14,968,877 gross acres which lie adjacent to and eastward of permits recently applied for by Imperial Oil Limited.

The Company has concluded an agreement with Hudson's Bay Oil & Gas Company Ltd. on a block of exploratory permits totalling 2,117,317 gross acres. (1,058,659 net acres) located in the Gulf of St. Lawrence south of the Island of Anticosti. Hudson's Bay will have earned an interest in the permits by completing a reconnaissance seismic survey this past summer. To maintain their interest after October, 1971, Hudson's Bay must place the necessary deposit re-

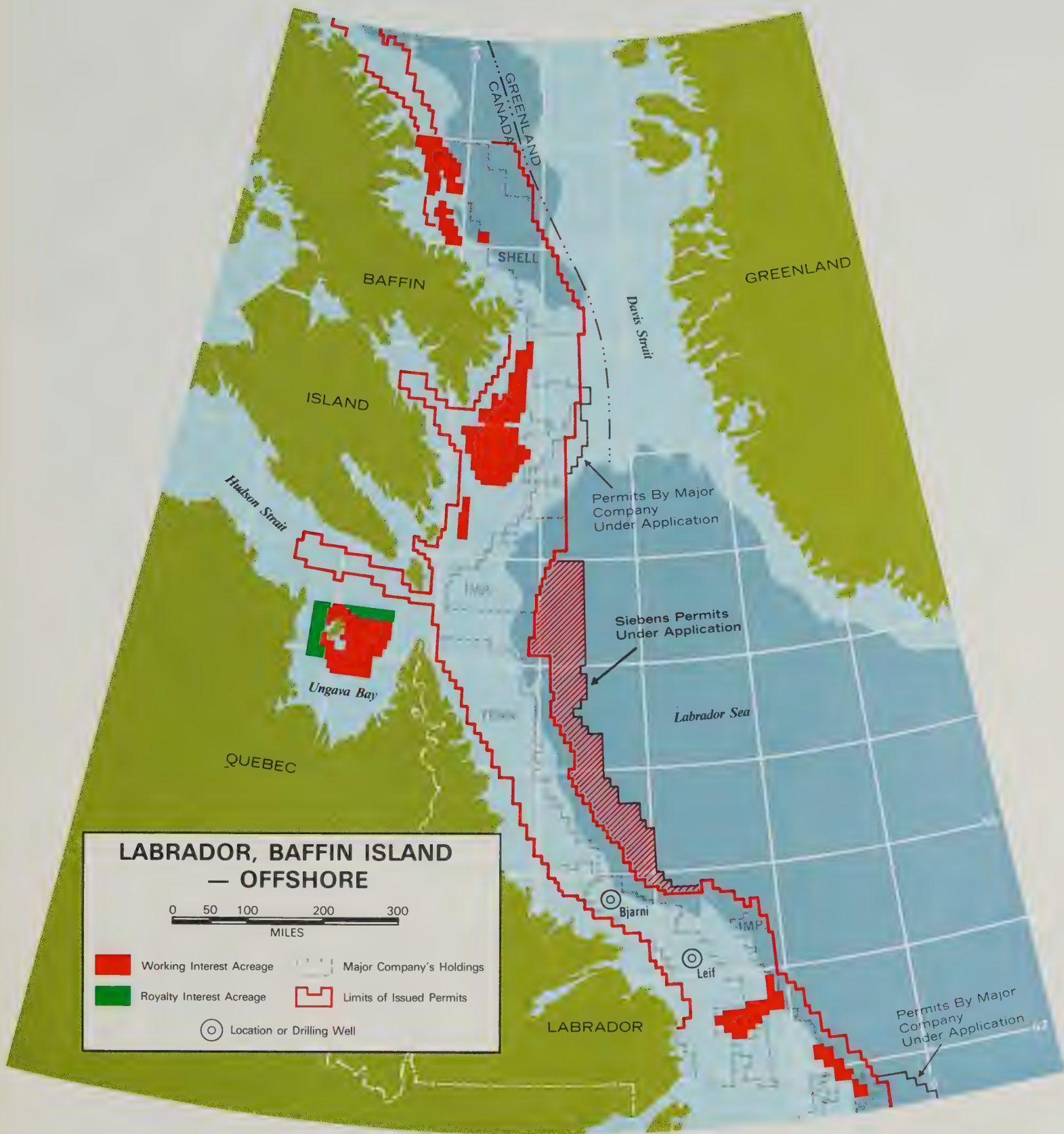
quirements with the Federal Government (\$317,000) and perform all additional work required at their sole cost.

Hudson's Bay Oil & Gas Company Ltd. has also committed to conduct a marine reconnaissance seismic program at a minimum cost of \$500,000 over 2,471,595 permit acres off the Labrador coast in which the Company has a 50% interest. This will carry the permits at no cost to the Company until January, 1975 and will earn Hudson's Bay a 20% interest, reducing the Company's interest to 40%. Hudson's Bay has an option to June 1, 1972 to commit to drill a 12,000 foot offshore well free to the Company to earn a one-half interest in one-third of the permit acreage with two additional options to earn a like interest in the other two-thirds of the acreage.

Off the east coast of Cape Breton Island, the Company holds a 50% interest in 1,865,566 gross acres. Under an agreement with Murphy Oil Company Ltd., entered into prior to the Company becoming publicly owned, Murphy has the right to acquire all or a portion of these lands, which, if exercised, would bring to the Company, a minimum of \$375,000 and a maximum of \$1,120,233. This option must be exercised by December 1, 1971 and reserves unto the Company a gross overriding royalty on the lands acquired by Murphy.

Siebens conducted a detailed marine seismic survey this past summer on its Burgeo Bank Block, lying off the south coast of Newfoundland and consisting of 390,658 gross acres in which the Company has a 50% interest. Interpretation of this program is underway and decisions as to further exploration here will be made after a study of the results.

A large block of exploratory permits located offshore Baffin Island totalling 8,528,002 acres was farmed out in the spring of 1971 to Canada-Cities Service Ltd. Under the terms of the farmout agreement, Canada-Cities Service agreed to reimburse the Company and its partners for the expense of a marine reconnaissance seismic survey shot in 1970 and to conduct a combined marine seismic and aeromagnetometer program estimated to cost approximately \$700,000 during 1971. Additional detailed seismic and aeromagnetics are proposed for 1972 after results obtained have been studied this year. Canada-Cities Service, by performing exploratory work amounting to 20¢ per acre, will earn a 25% working interest in the 8.5 million acre block (in which the Company holds 63.5% interest). In addition, Canada-Cities Service Ltd. has options whereby it may earn an additional 50% working interest in 1,000,000 acres for each 11,000 foot offshore test drilled at its own cost. Up to eight wells must be drilled by Canada-Cities Service Ltd. in order to earn its maximum interest in a maximum amount of acreage.

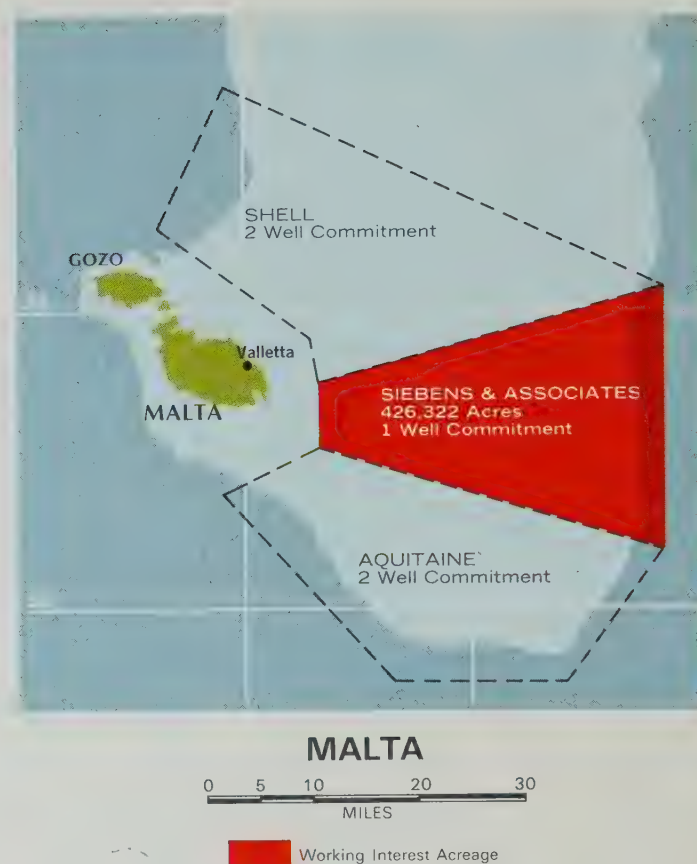


FOREIGN OIL & GAS EXPLORATION

Malta

In association with a group of Canadian companies, Siebens was recently granted a production licence covering 426,322 acres on the continental shelf east of the Island of Malta in the Mediterranean Sea. The Company's interest is 21¼%. A detailed marine seismic survey has been completed and is currently being interpreted. Licences were also issued to Shell Oil Company for a block of acreage adjoining Siebens to the north and to Societe Nationale des Petroles d'Aquitaine for a block adjoining to the south. Aquitaine has committed to drill its first of two commitment wells this fall and Shell should commence its first of two commitment wells in the spring of 1972. Drilling on the Company's licence will likely commence in the first quarter of 1972.

As the drilling activity on both sides of the Company's production licence will be commenced before the Company will drill, any positive results therefrom could be utilized in selecting our drilling location. A commercial discovery by either Shell or Aquitaine in this area would be of great significance to the Company.



Alaska

The Company's land holdings in Alaska are unchanged. A decision on pending applications is being delayed by reason of Alaskan Native claims against the U.S. Federal Government. Once the Trans-Alaska pipeline issue is settled, it is expected the status of these applications will be clarified.

The leases situated in the North Slope of Alaska encompass several surface structures which are considered prospective. The Company, in association with its partners, is considering farming out this acreage to an interested company.

Bahama Islands

The Company holds a 50% interest in 3,985,920 gross acres held under Exploration Licence, the majority of these lands situated in the vicinity of Andros Island. Two deep tests were drilled by others and abandoned in the Bahamas last year. Aeromagnetic and underwater gravity surveys have been completed and will be reviewed before additional exploration is undertaken.

FOREIGN LAND HOLDINGS

GEOGRAPHICAL AREA	NATURE OF INTEREST	GROSS ACRES	NET ACRES
*Alaska — North Slope	Leases	96,157	21,182
Bahama Islands	Licence	3,985,920	1,992,960
U. K.	Leases	110,404	11,040
Malta	Licence	426,322	90,593
Adriatic	Permit	263,675	26,367
		<u>4,882,478</u>	<u>2,142,142</u>

* The Company also has first priority rights on 330,000 acres under dispute between the U.S. Federal Government and the State of Alaska relating to Native claims.



United Kingdom

Siebens Oil & Gas (UK) Limited was formed in the fall of 1970 and an extensive marine seismic program was undertaken in the Northern North Sea, the Celtic Sea and in waters off Northwest Scotland in preparation for the Fourth Round of Awards of Production Licences in the United Kingdom. Your Company owns a 40% interest in Siebens UK, the other partners being Hambros Bank Limited, Coalite & Chemical Products Ltd., Guardian Royal Exchange Assurance Ltd. and Phoenix Assurance Co. Ltd.

Siebens UK surveyed exclusively, as well as purchased and traded into, a large amount of seismic data in these areas, exceeding 7,900 line miles, and made application for Production Licences with the United Kingdom Government on August 20, 1971. It is hoped that Siebens UK will be successful in acquiring Production Licences in this very encouraging and attractive exploration area. Siebens UK holds an interest in North Sea Blocks 16/3 and 16/7 on which a marine seismic survey has been conducted. It is expected that a well will be drilled on this Production Licence during 1972 or 1973.



Adriatic

In the Italian Adriatic offshore region, the Company holds a 10% working interest in six production permits. These permits have been farmed out under a seismic option agreement whereby seismic surveys will commence this winter and an offshore test drilled if the seismic is found encouraging.

Sicily

The Company has recently made application with two Canadian partners for production licences from the Italian Government in the area known as Zone C, off the south coast of Sicily. A portion of Zone C

relates geologically to offshore Malta while the balance of the area is prospective for both Tertiary and Triassic hydrocarbon accumulations. Results of the application will not be known for several months.

Other Areas

The Company has made application or is negotiating with the Governments of several other foreign countries for offshore concessions or licences. In this regard, the Company is attempting to acquire highly prospective land holdings in areas lightly explored or previously unexplored.

PRODUCTION

The average daily production rate of crude oil and natural gas liquids reached a level of 144 barrels per day, an increase of 40 percent over last year. These increases came mainly from acquisition of the producing properties of Calmano Oil and Gas Ltd. on January 1, 1971. These properties are expected to add an additional 40 barrels of oil per day to the 1971-72 production rate. The Company estimates that new wells on production in the Verger, Pouce Coupe, and Sunset fields in Alberta will bring the net production rate up to 300 barrels per day for the 1971-72 report period.

Natural gas sales increased to an average of 3.8 MMCF per day. This was an increase of 68 percent over the last report period rate. This increase was caused by higher gas contract rates in the Enchant field and new wells being put on production in the Medicine Hat and Warwick fields, of Alberta. During the next year the average net gas production rate from presently productive wells is expected to reach 6.0 MMCF per day when wells in the Medicine Hat and Verger area are tied-in and put on production.

NET PRODUCTION OF OIL, NATURAL GAS, NATURAL GAS LIQUIDS AND SULPHUR FOR THE PERIOD SEPTEMBER 1, 1970 - AUGUST 31, 1971

	Crude Oil (Barrels)	Natural Gas (Millions of Cubic Feet)	Natural Gas Liquids (Barrels)	Sulphur (Long Tons)
Working Interest	38,320	1,168	5,270	278
Royalty Interest	4,330	232	4,470	1,000
TOTAL	42,650	1,400	9,740	1,278

RESERVES

The Company's net reserves, estimated by its engineers, are shown in the table below. The 375 percent increase in crude oil reserves were mainly due to new drilling in the Pouce Coupe and Sunset Areas of Alberta and the acquisition of the producing properties of Calmano Oil and Gas Ltd. Development drilling will be carried out in both Sunset and Pouce Coupe during the winter season and significant increases in oil reserves are expected from this program.

Gas reserves were increased by 41 percent during the year. This increase was due mainly to development drilling in the Medicine Hat and Enchant areas. A program of development drilling to be carried out in the Medicine Hat area during the fall of 1971 is expected to prove up a large amount of Milk River formation gas.

COMPARISON OF NET RESERVES OF OIL, NATURAL GAS, NATURAL GAS LIQUIDS AND SULPHUR AS AT AUGUST 31, 1970 AND AUGUST 31, 1971

	Crude Oil (Barrels)	Natural Gas (Millions of Cubic Feet)	Natural Gas Liquids (Barrels)	Sulphur (Long Tons)
Total Reserves, August 31, 1970	262,500	33,200	292,600	56,000
Total Reserves, August 31, 1971	1,250,500	46,900	286,900	54,700

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1971

Assets

	1971	1970
CURRENT ASSETS		
Cash	\$ 189,183	\$ 35,133
Marketable securities, at cost (quoted market value \$9,540,250)	8,937,203	9,593,198
Accounts receivable	233,359	64,904
Accrued interest	310,542	344,212
Income taxes recoverable	—	271,630
	<u>9,670,287</u>	<u>10,309,077</u>
 INVESTMENT IN AND ADVANCES TO 40% OWNED COMPANY, at cost		
Siebens Oil & Gas (UK) Limited	<u>274,513</u>	<u>—</u>
 PROPERTY, PLANT AND EQUIPMENT		
Petroleum and natural gas leases and rights together with exploration and development thereon (Note 2(b))		
Producing	1,458,777	952,505
Accumulated depletion and depreciation	<u>68,046</u>	<u>108,484</u>
	1,390,731	844,021
Non-producing	1,587,701	1,317,586
Equipment and other assets, at cost less accumulated depreciation 1971 — \$27,600; 1970 - \$16,249	<u>50,296</u>	<u>60,930</u>
	<u>3,028,728</u>	<u>2,222,537</u>
 OTHER ASSETS	<u>3,180</u>	<u>35,565</u>
	<u>\$12,976,708</u>	<u>\$12,567,179</u>

The accompanying notes are an integral part of this financial statement.

Liabilities

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES		
Bank indebtedness	\$ 155,195	\$ —
Accounts payable and accrued liabilities	371,771	135,167
Due to joint venture partners	111,977	99,817
Income taxes (Note 5)	68,585	—
	<u>707,528</u>	<u>234,984</u>
GAS PRODUCTION PREPAYMENT	<u>50,000</u>	<u>—</u>
CONTINGENT LIABILITIES (Note 3)		

Shareholders' Equity

CAPITAL STOCK (Note 4)		
Authorized		
12,000,000 shares without nominal or par value		
Issued		
6,251,000 (1970 — 6,250,000) shares	11,755,380	11,750,200
RETAINED EARNINGS	463,800	581,995
	<u>12,219,180</u>	<u>12,332,195</u>

Signed on behalf of the Board:

Wm. W. Stephens

Director

J. E. Hines

Director

\$12,976,708

\$12,567,179

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970 (Note 1)
REVENUE		
Oil and gas production	\$ 334,959	\$140,237
Interest	846,502	549,386
Sale of oil and gas rights and seismic information	262,245	175,322
Other	90,590	30,834
	<u>1,534,296</u>	<u>895,779</u>
COSTS AND EXPENSES		
Production expense	93,859	27,765
Carrying charges of non-producing properties	384,122	177,677
Exploration expense	354,501	49,209
Dry hole costs	181,035	55,295
Property surrenders	29,368	13,661
General and administrative	343,575	182,019
Depletion and depreciation	72,875	62,067
	<u>1,459,335</u>	<u>567,693</u>
NET EARNINGS (Note 5)	<u>\$ 74,961</u>	<u>\$328,086</u>
EARNINGS PER SHARE	<u>\$.01</u>	<u>\$.05</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970 (Note 1)
RETAINED EARNINGS AT BEGINNING OF PERIOD	\$581,995	\$253,909
Additional taxes on incomes of predecessor companies	193,156	—
	<u>388,839</u>	<u>\$253,909</u>
Net earnings for the period	74,961	328,086
RETAINED EARNINGS AT END OF PERIOD	<u>\$463,800</u>	<u>\$581,995</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970 (Note 1)
SOURCE OF FUNDS		
From Operations		
Net earnings for the period	\$ 74,961	\$ 328,086
Items not involving funds		
Depletion and depreciation	72,875	62,067
Property surrenders	29,368	13,661
	<u>177,204</u>	<u>403,814</u>
Sale of common shares	5,180	11,750,000
Gas production prepayment	50,000	—
Other	32,386	9,846
	<u>264,770</u>	<u>12,163,660</u>
 APPLICATION OF FUNDS		
Property, plant and equipment — net	908,435	974,899
Investment in and advances to Siebens Oil & Gas (UK) Limited	274,513	—
Taxes on incomes of predecessor companies	193,156	260,549
Repayment of notes payable	—	769,500
	<u>1,376,104</u>	<u>2,004,948</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	 <u><u>\$(1,111,334)</u></u>	 <u><u>\$10,158,712</u></u>

The accompanying notes are an integral part of this financial statement.

NOTES TO 1971 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 AMALGAMATION

Siebens Oil & Gas Ltd. (the company) is a company created by the amalgamation, effective January 7, 1970, of Siebens Oil & Gas Ltd. and Investors Petroleum Producers Ltd. The 1970 consolidated statements of earnings, retained earnings and source and application of funds reflect the operations of the company from the date of amalgamation to August 31, 1970.

NOTE 2 ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Siebens Oil & Minerals, Inc. and Siebens Oil & Gas (Malta) Limited.

(b) Oil and Gas Operations

Petroleum and natural gas leases and rights held at the date of amalgamation (Note 1) are carried in the accounts of the company at the lower of cost or market value at such date; subsequent additions are carried at cost. The book value of such leases and rights is charged to income if the property is determined to be unproductive. Carrying charges of non-producing properties are charged to income as incurred.

Exploration expenses are capitalized and are charged to income if the exploration project is determined to be unsuccessful. The costs of drilling a productive well are capitalized and costs of an unproductive well are charged to income when the well is determined to be dry. The costs of successful exploration projects, producing leases and producing wells are depleted using the unit of production method based on estimated recoverable quantities of oil and gas as determined by the company.

Prior to September 1, 1970, the company followed the practice of charging all exploration expenses to income as incurred, irrespective of the results of exploration. Had the company applied this practice during 1971, additional exploration expenses of \$80,000 would have been charged to income for that year. Retroactive application of the change in accounting did not require a restatement of 1970 operating results.

(c) Foreign Currencies

The accounts of foreign subsidiaries are converted to Canadian dollars on the following basis:

- (i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.
- (ii) Fixed assets, at the average rate of exchange for the years in which the respective assets were acquired.
- (iii) Revenue and expenses, at the average rate of exchange for the year.

The loss on conversion has been charged to earnings.

(d) Income Taxes

Reference is made to Note 5.

NOTE 3 DEPOSITS AND PROMISSORY NOTES PAYABLE

The company has issued non-interest bearing promissory notes of \$1,904,740 and lodged these notes with government agencies or with partners in joint ventures as security for the fulfillment of exploration requirements in an equal amount. These promissory notes payable are guaranteed by the company's banker which guarantees are secured by certain marketable securities, an assignment of certain oil and gas rights and a general assignment of book debts.

In addition to promissory notes payable of \$1,904,740 the company has issued a further \$472,258 in non-interest bearing promissory notes to governmental agencies as permit deposits for account of partners in joint ventures which are fully secured by cash deposits or by notes issued by such partners and guaranteed by their bankers.

NOTE 4 CAPITAL STOCK

(a) During the year, the company issued 1,000 shares for \$5,180 cash on exercise of options.

(b) 100,000 shares of the company are reserved under a share option plan dated January 7, 1970. As of August 31, 1971 officers and employees held options granted under the plan to purchase 44,000 shares of the company at prices ranging from \$5.04 to \$7.33½ per share, exercisable in annual installments to July, 1977.

NOTE 5 INCOME TAXES

For income tax purposes the company has claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes have been payable by the company to August 31, 1971 and expenditures remain to be carried forward at that date (subject to assessment by taxation authorities) and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	\$1,400,000
Undepreciated capital cost	200,000

It is the policy of the company to provide for deferred income taxes at such time as taxes otherwise payable are deferred as a result of claiming capital cost allowance in excess of depreciation recorded. This policy permits the company to claim capital cost allowance in excess of book depreciation without providing for deferred tax in its accounts provided it has other tax deductions available to eliminate taxable income. However, management does not believe that it is appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs in excess of depletion provided in the accounts; while the view of management conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income tax provisions would have been \$45,000 for 1971 and \$120,000 for 1970, and net earnings would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current year and prior periods amount to approximately \$115,000 at August 31, 1971.

NOTE 6 STATUTORY INFORMATION

Remuneration paid during the year ended August 31, 1971 to directors and senior officers of the company totalled \$110,615.

AUDITORS' REPORT

TO THE SHAREHOLDERS
SIEBENS OIL & GAS LTD.

We have examined the consolidated balance sheet of Siebens Oil & Gas Ltd. and its subsidiaries as at August 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for exploration expenses as described in Note 2(b), were applied on a basis consistent with that of the preceding period.

Calgary, Alberta.
October 14, 1971.

(Signed) RIDDELL, STEAD & CO.
Chartered Accountants.



ANNUAL REPORT 1971

STIEBENS OIL & GAS LTD.

STIEBENS OIL & GAS LTD.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 1971
(Unaudited)

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 1971
(Unaudited)

SOURCE OF FUNDS	
Oil and gas production prepayment	\$ 50,000
Proceeds on sale of oil and gas rights, and equipment	61,621
Other	<u>35,752</u>
	147,373

REVENUE	
Oil and gas production	\$168,658
Royalties	20,553
Interest	433,719
Other	<u>54,404</u>
	677,334

APPLICATION OF FUNDS	
In operations	164,611
Loss for the period	\$47,527
Items not involving funds	4,396
Depletion and depreciation	<u>11,821</u>
Property surrenders	63,744
Loss on sale of oil and gas rights and equipment	100,867

COSTS AND EXPENSES	
Production expense	\$ 37,339
Carrying charges on non-producing properties	203,945
Geological, geophysical and land department expenses	237,544
Unproductive exploration costs	143,884
Property surrenders	4,396
General and administrative	155,489
Depletion and depreciation	<u>47,527</u>
	830,124

Acquisition of petroleum and natural gas leases and rights, together with exploration and development thereon	390,149
Investment in and advances to Siebens Oil & Gas (U.K.) Ltd.*	259,043
Tax re-assessment of predecessor companies	<u>121,156</u>
	871,215

LOSS BEFORE UNDERNOTED ITEM	
Loss on sale of oil and gas rights and equipment	<u>11,821</u>
LOSS FOR THE PERIOD	\$164,611
LOSS PER SHARE	<u>3¢</u>

DECREASE IN WORKING CAPITAL	
Working capital August 31, 1970	10,058,741
WORKING CAPITAL FEBRUARY 28, 1971	<u>\$ 9,334,899</u>

The above financial information is subject to year end
audit and adjustments.
Financial information for the comparable period of the
preceding fiscal year is omitted due to the change in operations
of the company effective January 7, 1970.

*Siebens Oil & Gas (U.K.) Ltd. is a 40% owned company.

